

STATE OF CONNECTICUT

**AUDITORS' REPORT
DEPARTMENT OF CONSUMER PROTECTION
FOR THE FISCAL YEARS ENDED JUNE 30, 1996 AND 1997**

AUDITORS OF PUBLIC ACCOUNTS
KEVIN P. JOHNSTON ❖ ROBERT G. JAEKLE

Table of Contents

INTRODUCTION.....	1
COMMENTS.....	1
Foreword.....	1
Boards and Commissions.....	2
Legislative Changes	4
Résumé of Operations	5
General Fund	5
Fiduciary Funds	7
Pending Receipts Fund.....	7
Health Club Guaranty Fund	7
Real Estate Guaranty Fund	8
Home Improvement Guaranty Fund.....	8
Itinerant Vendors Guaranty Fund	9
CONDITION OF RECORDS	10
Records Retention.....	10
Late Deposits.....	11
Payroll/Personnel.....	12
Compensatory Time.....	17
Liquor Control Commissioners' Work Hours	18
Enforcement Activity Expenditures.....	19
Property Control	21
Imprest Petty Cash Fund.....	22
Computer System Security.....	23
Generally Accepted Accounting Principles (GAAP) Reporting	24
Health Club Guaranty Fund	26
Summary of Violation Reports	27
Brand Registrations	28
Full Time Staffing of Liquor Control Casino Agents at the Casinos	28
Casino Permits.....	29
RECOMMENDATIONS	31
INDEPENDENT AUDITORS' CERTIFICATION	37
CONCLUSION	40

March 23, 2000

**AUDITORS' REPORT
DEPARTMENT OF CONSUMER PROTECTION
FOR THE FISCAL YEARS ENDED JUNE 30, 1996 AND 1997**

We have made an examination of the records of the Department of Consumer Protection for the fiscal years ended June 30, 1996 and 1997.

This report thereon consists of the Comments, Recommendations and Certification which follow.

Financial statements concerning the operations and activities of the Department of Consumer Protection (the Department) are presented and audited on a Statewide Single Audit basis to include all State agencies. This audit has been limited to assessing the Department's compliance with certain provisions of financial related laws, regulations, contracts and grants, and evaluating the Department's internal control structure policies and procedures established to ensure such compliance.

COMMENTS

FOREWORD:

The Department of Consumer Protection operated generally under the provisions of Chapters 416 and 545, of the Connecticut General Statutes to enforce legislation intended to protect the consumer from injury by product use or merchandising deceit and to protect the public health and safety through control over the distribution and sale of alcoholic beverages. Such legislation was generally within various Chapters of the following General Statute Titles: Title 20 (Examining Boards and Professional Licenses), Title 21 (Licenses), Title 21a (Consumer Protection), Title 30 (Intoxicating Liquors), Title 42 (Business, Selling, Trading and Collection Practices), and Title 43 (Weights and Measures).

Section 21a-1 of the General Statutes provides that the Department shall be under the direction and supervision of a Commissioner of Consumer Protection. Mark A. Shiffrin served as Commissioner during the audited period. Subsequently, Mr. Shiffrin was replaced by Mr. James T. Fleming on January 29, 1999.

It should be noted here that under the provisions of Public Act 95-195, the Department of Liquor

Auditors of Public Accounts

Control was abolished and its duties were transferred to the Department of Consumer Protection, effective July 1, 1995.

Boards and Commissions:

Various sections of the General Statutes provided that certain boards and commissions operate within the Department of Consumer Protection. Members of these groups as of June 30, 1997, others who served during the audited period, and statutory references are shown below.

BOARD OR COMMISSION	CHAIRMAN	MEMBERS	ALSO SERVED DURING AUDITED PERIOD
Architectural Licensing (Section 20-289)	Norman S. Baier	Paul H. Bartlett Laura J. Bordeaux Carole W. Briggs Robert B. Hurd	James W. Abrams Allan J. Dehar Philip H. Cerrone, III A. Howard Spargo David Wlodkowski
State Board of Landscape Architects (Section 20-368)	Vincent C. McDermott	Dickson F. DeMarche Rudy J. Favretti John Holmes Marianne Pollak Shavaun Towers one vacancy	
Electrical Work Examining Board (Section 20-331)	Ross H. Garber	Thomas A. Delnicki Patrick Donahue Roger L. Johnson, Jr. Kenneth B. Leech Louis J. Stanio Raymond A. Turri Laurence A. Vallieres Frank J. White, Jr.	Alan F. Budney Christopher Hallberg Richard Panagrossi Robert Verderame
Elevator Installation, Repair and Maintenance Work Examining Board (Section 20-331)	Paul B. Farnsworth	Gerald L. Brown John R. DeRosa, Jr. Michael D. Griffin Jeffrey J. Hogan Thomas J. O'Reilly one vacancy	Dominic C. Accarpio John J. Barrett John R. DeRosa, Sr. Leonard P. Powers Patrick J. Reidy Anthony Truglia

Fire Protection Sprinkler System Work Examining Board (Section 20-331)	Richard Wirth	Roger H. Brake, Jr. William A. Fiondella Richard J. Kopchyak Michael R. Livingstone John V. Maher Anthony D. Moscato Joseph H. Versteeg one vacancy	Josephine A. Brennan William R. Lanning
BOARD OR COMMISSION	CHAIRMAN	MEMBERS	ALSO SERVED DURING AUDITED PERIOD
Heating, Piping and Cooling Work Examining Board (Section 20-331)	Robert H. Barrieau	Joseph R. Blumberg Cameron G. Champlin, Jr. Michael T. Connor James M. Eschert David G. Foster Joseph Leggo Francis J. Limone Leonard F. Murray	Herbert Gilbert John T. Higgins Michael F. Morin Michael Rizzuti John Woodcock
Plumbing and Piping Work Examining Board (Section 20-331)	R. Bradley Wolfe	Richard T. Chapman Russell W. Fucci Everet L. Gawendo Brian T. Kronenberger Leonard A. Maselli John M. Nettle James Piccoli Peter Romaniello George C. Sima John R. Sullivan R. John Wilcox, II	Hubert J. Barnes Aldo DiBacco Robert K. Hilton Michael Ludwick John H. McNary, Sr. James Sulzinski William Witman
Commission of Pharmacy (Section 20-163)	William J. Summa, Jr.	Edith G. Goodmaster Robert S. Guynn David H. Johnson Domenic A. Sammarco Frederick C. Vegliante	Virginia H. Fallon

Auditors of Public Accounts

Examiners for Professional Engineers and Land Surveyors (Section 20-300)	Anthony L. D'Andrea	Joseph A. Cermola Frank S. Chuang John T. DeWolf Andrew G. Farkas William Giel Robert Grossenbacher Rocco V. Laraia, Jr. Terry D. McCarthy Curtiss B. Smith Stanley A. Swimmer one vacancy	Andrienne Camilli John R. Casey Lawrence A. Fagan, Jr Marvin Gates Jack Lipman James T. Wang
Connecticut Real Estate Commission (Section 20-311a)	John H. Frey	Bruce H. Cagenello Maggie A. Claud Donna Hohider Gerry Mathews Rae D. Tramontano Leonard E. Wells one vacancy	Barbara H. Beal Janet P. Buckley Audrey A. Cole John Esposito Susan G. Foote Barbara L. Pearce Joseph Richichi Lynn H. Taborsak
BOARD OR COMMISSION	CHAIRMAN	MEMBERS	ALSO SERVED DURING AUDITED PERIOD
Connecticut Real Estate Appraisal Commission (Section 20-502a)	Donato D. Maisano	David F. Ertman Robert J. Kennedy Gerald V. Rasmussen Linda M. Sepso A. Howard Spargo Nicholas J. Tetreault one vacancy	John Albano Tami W. Kaschuluk Lewis R. Mintz Frank O'Neill
Board of Television and Radio Service Examiners (Section 20-343)	Vincent A. Lanteri	John Bortniak Jack B. Halpert Stanley E. Pencikowski one vacancy	
State Tree Protection Examining Board	Kenneth Bombaci	Edward J. Corbett Michael J. Kennedy George R. Stephens	James A. Lamondia Harry Pope David B. Schroeder

(Section 23-61a(b))		Saul Rich two vacancies	
Mobile Manufactured Home Advisory Council (Section 21-84a)	Kristian Jensen, Jr.	Robert W. Burns Joseph F. Caccamo, Jr. Myriam Clarkson Catherine Conderino Norman J. DeAngelis Marilyn Denny Glenna Easton Rocco Facinto William G. Fash Jeffrey P. Ossen Bennett Pudlin Lee Ross Marcia Stemm	Leonard S. Campbell Dorothy S. Kablik Michael Flamino

Legislative Changes:

Notable legislative changes which took effect during the audited period are shown below.

Public Act 95-72: This Public Act, which was codified within Section 21a-249, subsection (d), of the Connecticut General Statutes, requires the Commissioner of Consumer Protection, with the Pharmacy Commission's advice and assistance, to adopt regulations specifying when pharmacies may remain open during business hours when the pharmacist is not present, if the prescription department is closed and properly secured and indicates several items which must be included in the regulations.

Public Act 95-195: This Public Act, which was codified within Title 30, Chapter 545 of the Connecticut General Statutes, abolished the Department of Liquor Control and transferred its duties to the Department of Consumer Protection, effective July 1, 1995.

Public Act 95-264: This Public Act, which was codified within Title 29, Chapter 400j of the Connecticut General Statutes, created the Pharmacy Practice Act which establishes the powers and duties of the Pharmacy Commission and sets standards for licensing pharmacies and pharmacists, effective October 1, 1995.

Public Act 95-311: This Public Act, which was codified as Sections 20-327b through 20-327e of the Connecticut General Statutes, required that the seller of property provide the buyer with a written residential condition report and specifies the form of such report. Should the seller fail to provide the report, then the buyer is to receive a \$300 credit at closing, effective January 1, 1996.

Auditors of Public Accounts

Public Act 96-117: This Public Act, which was codified as Section 20-421, Subsection (c) of Section 20-427 and Subsection (b) of Section 20-432 of the Connecticut General Statutes, provided for the waiver of the application fee for a certificate of registration as a home improvement contractor who acts solely as the contractor of record for a corporation, effective October 1, 1996.

RÉSUMÉ OF OPERATIONS:

General Fund:

General Fund receipts of the Department totalled \$23,920,387 and \$25,211,929 during the fiscal years ended June 30, 1996 and 1997, respectively, and were comprised mainly of payments for licenses to render professional services, to engage in skilled trades and certain businesses, and for liquor permits.

Comparative summaries of receipts for the fiscal years under review and the preceding year are presented below.

	<u>Fiscal Year</u> <u>1994 - 1995</u>	<u>Fiscal Year</u> <u>1995 - 1996</u>	<u>Fiscal Year</u> <u>1996 - 1997</u>
Licenses	\$11,383,374	\$13,713,968	\$14,881,444
Fees	807,574	2,258,875	1,801,199
Permits	31,930	5,740,217	5,790,230
Federal contributions	51,337	28,344	15,063
Grants other than Federal	277,257	405,305	299,591
All other receipts	<u>323,853</u>	<u>1,773,678</u>	<u>2,424,402</u>
Total Receipts	<u>\$12,875,325</u>	<u>\$23,920,387</u>	<u>\$25,211,929</u>

Overall, receipts increased significantly in the 1995-96 fiscal year as compared to the 1994-95 fiscal year because of the implementation of Public Act 95-195 which abolished the Liquor Control Commission, effective July 1, 1995. The General Fund receipts of the Liquor Control Commission, which amounted to \$7,421,910 in the 1994-95 fiscal year, were combined with those of the Department for the two fiscal years under review. This merging of the two agencies resulted in a large increase in receipts for permits and was responsible for the significant increase in receipts from fees. The reduction in fees during the 1996-97 fiscal year as compared to the 1995-96 fiscal year was caused by changing the renewal period for some fees from two years to one year.

Comparative summaries of General Fund expenditures for the fiscal years under review and the preceding fiscal year are presented below.

	<u>Fiscal Year</u> <u>1994 - 1995</u>	<u>Fiscal Year</u> <u>1995 - 1996</u>	<u>Fiscal Year</u> <u>1996 - 1997</u>
Personal services	\$6,186,331	\$7,758,444	\$7,768,599
Contractual services	709,928	906,776	827,294
Commodities	143,189	171,320	135,289
Refunds	113	299	48

Auditors of Public Accounts

Sundry charges	<u>275</u>	<u>360</u>	<u>520</u>
Total Budgeted Appropriations	7,039,836	8,837,199	8,731,750
Restricted contributions	<u>467,874</u>	<u>1,363,123</u>	<u>1,805,858</u>
Total Expenditures	<u>\$7,507,710</u>	<u>\$10,200,322</u>	<u>\$10,537,608</u>

Expenditures from budgeted accounts increased by \$1,797,363 and decreased by \$105,449 during the respective audited years. The increase in the 1995-1996 fiscal year was caused, for the most part, by the merging of the Departments of Consumer Protection and Liquor Control. The modest decrease in the 1996-1997 fiscal year was caused by staff reductions. Staffing levels decreased during the 1996-1997 fiscal year compared to the 1995-1996 fiscal year, as shown in the following summary of average filled positions:

	<u>Fiscal Year</u> <u>1994 - 1995</u>	<u>Fiscal Year</u> <u>1995 - 1996</u>	<u>Fiscal Year</u> <u>1996 - 1997</u>
Full-time positions	146	179	165
Part-time positions	<u>3</u>	<u>4</u>	<u>3</u>
Total	149	183	168

Contractual service expenditures increased by \$65,936 and decreased by \$48,103 during the respective audited years. Major categories of contractual services were motor vehicle rentals, postage and telecommunications.

In addition to General Fund expenditures, capital equipment purchases totalling \$15,344 and \$90,628 were paid from a Capital Equipment Purchase (1872) Fund during the 1995-1996 and 1996-1997 fiscal years, respectively.

Fiduciary Funds:

During the audited period, the Department conducted certain financial activities accounted for in both agency and trust type funds. Agency fund accounts were used to hold moneys in a custodial capacity. Expendable trust funds were used to receive guaranty deposits and pay claims in accordance with statutory provisions.

Pending Receipts Fund:

Monies received by the Department for security deposits required for closing out sales, bond money for pending determination of certain licenses, receipts where the final disposition was uncertain, and fees for issuance or renewal of real estate brokers and salesmen licenses were deposited to an account of the State's Pending Receipts Fund.

Receipts deposited to the pending receipts fund totalled \$5,326,344 and \$5,963,674 during the fiscal years ended June 30, 1996 and 1997, respectively. Disbursements totalled \$4,965,635 and \$5,856,713 during the respective audited years and included transfers of moneys to revenue accounts, as well as moneys returned to payors. As of June 30, 1997, a pending receipts balance of \$1,774,191 existed consisting mostly of funds within the Real Estate Brokers and Salesmen License Fees account.

The Department has established accounts within the pending receipts fund. One of these accounts, the Real Estate Brokers and Salesmen License Fees Account, was formerly an agency fund, and became a subsidiary account within the State's Pending Receipts Fund in April 1995. Payment of fees for issuance or renewal of real estate brokers and salesmen licenses are deposited to this account and are then distributed to the General Fund and the University of Connecticut. In accordance with Section 10a-125 of the General Statutes, an amount equal to eight and three-quarters percent of each license fee was turned over to the University of Connecticut for the support, maintenance and use of the Center for Real Estate and Urban Economic Studies. Distributions to the University of Connecticut totalled \$378,348 and \$475,854 during the fiscal years ended June 30, 1996 and 1997, respectively. The remaining balances of this account were transferred to General Fund revenue accounts.

Health Club Guaranty Fund:

This trust fund operated under the provisions of Section 21a-226 of the General Statutes to receive fees paid by health clubs licensed by the Department and to pay claims made by buyers of contracts with health clubs that ceased operations prior to the end of the contract period.

Fund revenues totalled \$98,843 and \$106,234 during the fiscal years ended June 30, 1996 and 1997, respectively, and consisted of the annual fees paid by health clubs, recoveries from clubs and investment income.

Claims paid from the fund totalled \$14,550 and \$27,551 during the respective years. Section 21a-226, subsection (c), of the General Statutes provides that the balance in this fund is not to exceed \$350,000. As of June 30, 1997, a fund balance of \$350,092 existed. (The balance being in excess of the statutory limit was a temporary condition caused by the June accrual of investment income.)

Excess funds totalling \$81,649 were credited to or payable to the General Fund during the audited period.

Further comments on the Health Club Guaranty Fund are presented in the Condition of Records section of this report.

Real Estate Guaranty Fund:

This trust fund operated under provisions of Sections 20-324a through 20-324j of the General Statutes to provide compensation to persons aggrieved by any action of a real estate broker or salesman licensed by the Department. Funding was provided by fees of \$20 from persons receiving such licenses for the first time.

Revenues totalled \$25,312 and \$25,034 during the respective audited years and were comprised of fees. Claims paid totalled \$33,293 and \$99,700 during the respective audited years. Section 20-324c of the General Statutes provides that the authorized fund balance is not to exceed \$500,000 and that any interest earned by the fund is to be credited to the General Fund. Interest totalled \$15,967 during the audited period. As of June 30, 1997, the fund balance was \$80,774.

Home Improvement Guaranty Fund:

This trust fund operated under the provisions of Section 20-432 of the General Statutes. The purpose of the fund was to provide payments to homeowners for losses or damages caused by the actions of Department certified home improvement contractors. The main funding source was fees paid annually by home improvement contractors and salesmen. Such fees deposited to the fund during the audited fiscal years totalled \$527,638 and \$585,853, respectively. Interest credited to the Fund during the audited period totalled \$94,695.

Section 20-432, subsection (c), of the General Statutes provides that the balance in this fund is not to exceed \$750,000. This was amended by Public Act 94-68, effective October 1, 1994, that provided for annually, \$150,000 in excess of the \$750,000 balance is to be credited to the Consumer Protection Enforcement Account (CPEA), a restricted account within the General Fund, for home improvement enforcement activity. Any excess thereafter is to be credited to the General Fund. Claims paid totalled \$570,031 and \$667,604 for the respective fiscal years.

As of June 30, 1997, the fund balance was \$711,130. Excess funds totalling \$1,710,804 were credited to or payable to the General Fund during the audited period.

Itinerant Vendors Guaranty Fund:

This trust fund operated under provisions of Section 21-33b of the General Statutes. Funding is provided by annual payments of \$100 required from licensees and is to be used for satisfaction of consumer claims against them. An itinerant vendor is defined in Section 21-27 of the General Statutes as "... any person ... who engages in a temporary or transient business in this state, either in one locality or in traveling from place to place" The fund balance is not to exceed \$50,000 and excess balances are to be credited to the General Fund. As of June 30, 1997, the fund balance was \$33,800.

Receipts totalled \$10,300 and claims paid totalled \$100 during the audited fiscal years.

CONDITION OF RECORDS

Our review of the records of the Department of Consumer Protection revealed certain areas requiring improvement or attention, as discussed in this section of the report.

Records Retention:

During the course of our audit we noted the following instances of noncompliance with the State's records retention requirements:

Criteria: State records retention requirements promulgated by the State Library, Office of Public Records Administration, in accordance with Section 11-8 of the General Statutes, provide that accounting records be retained for three years or until audited, whichever comes later.

Condition: During our review of departmental operations we noted the following deficiencies in respect to records retention:

- Receipts - one of 25 receipts tested had no source documentation on file to support the deposit transaction. We were subsequently informed that all 1997-1998 Real Estate Brokers and Real Estate Salespersons renewal documents could not be located. The Department's Central Licensing Division considers the renewal form (returned by licensee) to be the source document for receipting licensing monies.
- Employee Time Records - in lieu of employee signed time sheets, certain divisions within the Department were allowed to maintain varying types of activity records (time records) prepared by the employee. These types of unofficial records were noted in our review of 25 payroll transactions wherein 16 payments were not supported by official time reports containing an employee signature to verify the correctness of attendance and leave time reported [see Recommendation 4]. Seven of the 16 noncompliant time records were unavailable for review; four were discarded and three could not be located within the Department's storage area.
- Commitment Documents - one of 25 expenditures tested had no purchase order on file to support the contract price paid for services provided.

Effect: The failure to adequately safeguard documentation reduces the integrity of the established internal control structures relative to receipts, payroll transactions and expenditures.

Cause: We were informed that with the recent movement of personnel and the relocating of offices, records were misplaced or inadvertently discarded.

Recommendation: The Department should develop procedures to assure compliance with accounting records retention requirements of the State Library, Office of Public Records Administration. (See Recommendation 1.)

Agency Response: "The Department agrees with this recommendation and will continue its efforts to assure full compliance with accounting records retention requirements. It is significant to note that, after this recommendation was made by the Auditors of Public Accounts in its report for the period ending June 30, 1995, the Department subsequently reviewed all of its records, issued a guidelines package with attachments to the respective division directors, and worked with each division to update both schedules and records disposal authorizations."

Auditors' Concluding Comments:

Despite the agency's efforts to improve retention procedures, accounting documents were again unavailable for audit review. The Department states that guidelines were distributed to division directors, however, it is management's responsibility to ensure that stated procedures are complied with by all Department personnel.

Late Deposits:

Our examination of deposits disclosed the following:

Criteria: During the audit period Section 4-32 of the General Statutes required that agencies deposit and account for daily receipts in excess of \$100 within 24 hours. Effective July 1, 1997, Public Act 97-65 increased the amount to \$500. Under authorization from the State Treasurer the Department was granted a four business day waiver to the 24 hour deposit and reporting requirement through June 30, 1997.

Condition: Our review of 104 Departmental revenue receipts disclosed that nine receipts tested, amounting to \$5,223 were not deposited in a timely manner, they were from two to 13 days late; 22 receipts tested, amounting to \$7,775 were not reported to the State Treasurer in a timely manner, they were from one to 15 days late; one receipt for \$300 had no source document on file to support the date of receipt. This matter was reported to the Governor and other appropriate State Officials on September 3, 1999, in accordance with Section 2-90 of the General Statutes.

Brand registration receipts are not deposited until all reported items on the registration form have been verified; i.e., each component is researched. The detail is traced to department records of previously reported brands and to a registration fee schedule for the applicable item. We were informed that this activity, which is an established Liquor Division procedure, is time

consuming, and may contribute to late depositing of brand registration receipts.

Effect: Noncompliance with prompt depositing and reporting requirements could compromise security and proper accounting over receipts.

Cause: Inadequate staffing of essential positions within both the Central Licensing and Liquor Division contributed to late depositing and reporting of Departmental receipts.

The Department has not addressed a procedural deficiency within the Liquor Division in respect to receipting brand registration monies.

Recommendation: The Department should establish adequate procedures for recording, depositing and reporting of revenue receipts to comply with the provisions of Section 4-32 of the General Statutes. (See Recommendation 2.)

Agency Response: "The Department agrees with this recommendation since the agency has still not achieved the goals it set for itself in this regard several years ago. The Department has been working to consolidate its licensing/revenue-processing systems, to strengthen internal controls, and to deposit revenue items upon receipt, by centralizing the collection and processing of its revenue items within its new "Division of License Services". We have procured, and are currently programming, a new software application which integrates licensing, revenue, and complaint-handling, and has scanning capabilities. The Department believes that this new system, in conjunction with a forthcoming retail lockbox arrangement, will eliminate its deposit problems."

Payroll/Personnel:

The following is based on our review of Department appointments to the classification of Durational Project Manager, Transitional Manager and certain other positions.

Criteria: Section 21a-11 of the General Statutes provides that the Commissioner of Consumer Protection may, subject to the provisions of Chapter 67, " . . . employ such agents and assistants as are necessary to enforce the provisions of the general statutes wherein said commissioner is empowered to carry out the duties and responsibilities assigned to him or his department."

The Durational Project Manager designation was created as a personnel position in the unclassified service pursuant to Section 5-198, subsection (n) of the General Statutes. This statute allows for the use of the unclassified service designation for "Persons employed to make or conduct a special inquiry, investigation, examination or installation." The term of appointment is *durational* and established for a period of up to two years;

position may be extended as warranted, but total duration may not exceed three years.

The Transitional Manager designation was created as a classified non-competitive position to implement transition of State managers from positions which have been eliminated through agency reorganization to new positions identified as needed within the organization or utilized for specific managerial positions where job duties are not yet fully defined in agencies undergoing a significant reorganization. This class is reserved for current State employees.

The Customer Service Program Developer designation was created as a personnel position in the unclassified service pursuant to Section 5-198, subsection (n) of the General Statutes to develop and install a program to manage customer experiences and create higher levels of customer satisfaction. This statute allows for the use of the unclassified service designation for "Persons employed to make or conduct a special inquiry, investigation, examination or installation." The term of appointment is *durational* and established for a period of up to three years; subject to approval of the Commissioner of Administrative Services, position may be extended if the program installation is not yet complete.

The Director of Organizational Development position was created as a classified competitive position to account for agency wide planning, consultation, implementation and integration of organizational development and quality planning. (Effective March 26, 1999 this classification was revised to expand usage to Department of Consumer Protection and modify content.)

Administrative Hearings Attorney 2 position was created as a classified competitive position wherein the incumbent is accountable for independently representing a State agency in a full range of administrative proceedings. The attorney must be admitted to practice law in the State of Connecticut.

License and Applications Specialist position was created as classified competitive position wherein the incumbent performs complex tasks in the analysis and process of license and registration applications in an agency with regulatory responsibility for specific industries or businesses.

Section 5-227a of the General Statutes provides for promotion by reclassification of position for positions in the classified service only.

Condition: The former Commissioner had requested and filled nine Durational Project Manager positions. Prior to the expiration of the durational position seven incumbents were reclassified; three were reclassified to Transitional Manager (classified/non-competitive), two were reclassified to License and

Applications Specialist (classified/competitive), two were reclassified to Customer Service Program Developer (unclassified/durational). In respect to Durational Project Managers the job duties are defined and the availability of the position ends with the completion of the special project, consequently, these positions would not be eligible for reclassification.

- We noted that the classification of Durational Project Manager was used to fill the functional position of Deputy Commissioner/Chief of Staff. The current incumbent was originally appointed to a Durational Project Manager position, reclassified to Transitional Manager, and then promoted by the current Commissioner to Director of Organizational Development, the incumbent's functional duties remain those of Chief of Staff.
- Two incumbents were appointed to Durational Project Manager positions to make or conduct a special inquiry, investigation, examination or installation, and subsequently reassigned to other "special" projects undefined at the time of appointment.
- Prior to the expiration of two Durational Project Manager positions (which had been extended to the maximum three years) the incumbents were appointed to the position class of Customer Service Program Developer by the current Commissioner. As defined by Statute this class is also a durational position subject to Section 5-198, subsection (n).
- We noted an appointment to a permanent part-time classified/competitive position for Administrative Hearings Attorney 2, based on licensure as attorney. (Per the Personnel Officer, layoff and SEBAC cleared for this part-time position.) Subsequently, the incumbent was appointed to Durational Project Manager and then to Transitional Manager. All three positions were requested as part-time.
- The Department appointed two contractual employees (Contractual Board Administrators) to Durational Project Manager positions in order to support the Department's licensing activities in response to an out-of-court settlement between the various professional boards and the Department. These positions were subsequently reclassified to License and Applications Specialist, a classified competitive position.

Effect: Incumbents in the position designation of Durational Project Manager were reclassified from a durational position to permanent classified and unclassified positions non-competitively. This appears to circumvent provisions of Section 5-198, subsection (n) of the General Statutes.

Cause: The conditions noted above appear to be attributable to the Department's intent to retain certain incumbents within State service. The above position

classifications and reclassifications were approved by the Department of Administrative Services.

We were informed that the contractual employees were placed within Durational Project Manager positions because the Department could not obtain Department of Administrative Services and/or Office of Policy and Management approval for appropriate classifications. And, in order to comply with State Comptroller Memorandum No. 94-9, which defines employee and independent contractor status of workers, the Department appointed these contractual employees to Durational Project Manager positions. It was felt that the request for and approval of the position of Durational Project Manager for these incumbents was the most expedient method to meet the aforementioned condition.

Recommendation: The Department should comply with Section 5-198, subsection (n) of the General Statutes. (See Recommendation 3.)

Agency Response: "The Department complies with Section 5-198. In the case of the two Durational Project Managers hired to function as Board Administrators, the Department took this action to offset potential legal and labor concerns and until an appropriate classification could be developed."

Auditors' Concluding Comments:

It appears the Department has misinterpreted Section 5-198, subsection (n) of the General Statutes as the classification of Durational Project Manager pertains to job duties which are defined and the availability of the position ends with the completion of the special inquiry, investigation, examination or installation; as defined, durational positions are not subject to reclassification. Additionally the use of Durational Project Manager positions to appoint personnel awaiting the establishment of a bona fide position does not appear to be an allowable use under Section 5-198 of the General Statutes.

We noted the following control deficiency in respect to the personnel cycle:

Criteria: An effective internal control system should have written personnel policies covering hiring procedures and salaries; and new hires should be approved by upper management and the process fully documented.

Condition: Our review of 10 personnel actions disclosed that four new position actions (APS-300) did not have proper departmental authorization for position establishment on file; eight new hire actions (APS-301) did not have signed authorizations (Commissioner or designee) on file to support payroll action; two new appointees did not provide/complete a résumé, PLD-1 or equivalent documentation to support minimum qualifications for appointment to specified position; and two new hires for attorney positions

Effect: did not have documentation on file to support the requirements of attorney. The informal process noted in our review weakens the internal control structure and the chance that irregularities may occur increases.

Cause: Inadequate internal control policies and procedures relative to the hiring process contributed to these conditions. In respect to lack of proper authorizations, we were informed by the Personnel Officer that transactions were processed based on oral directives from the new Commissioner who was not aware of the documentation required by the Department's internal control structure at the time of the above appointments. In respect to Department review of minimum qualifications for new hires, the agency provided no explanation for lack of documentation.

Recommendation: The Department should develop adequate control procedures relative to payroll and personnel transactions. (See Recommendation 4.)

Agency Response: "The Department agrees with part of this recommendation and will revise existing procedures to reflect agency operating needs. Some departmental personnel authorizations were not on file for position actions during the audited period, however, this condition has been corrected."

Additionally, our review of payroll and attendance records disclosed the following:

Criteria: Department control procedures require that official time reports reflect hours at work; be signed or initialed by the employee; and be reviewed and approved by an appropriate supervisor. These reports are prepared to support payroll expenditures.

Condition: Our review of payroll transactions disclosed that 16 of 25 payments tested were not supported by official time reports containing an employee signature to verify the correctness of attendance and leave time reported. Time reports for certain divisions were prepared by a clerk and approved by the director and/or supervisor but not signed or initialed by the employee.

Effect: The informal process noted in our review weakens the internal control structure and the chance that irregularities may occur increases.

Cause: Certain divisions within the Department were allowed to deviate from the standard practice.

Recommendation: The Department should adhere to an established time and attendance reporting and recording policy. Official time reports should reflect hours at work or time taken; be signed or initialed by the employee; and reviewed and approved by an appropriate supervisor. (See Recommendation 4.)

Agency Response: "...the Department will ensure that the signatures for employees attendance, which are currently maintained at the divisional level, are attached to the official agency attendance reports that are maintained by the Payroll Office."

Compensatory Time:

Our examination of personal services records included a review of the accumulation and use of compensatory time by Department employees. We found the following:

Criteria: State personnel policy and collective bargaining agreements provide for the use and administration of compensatory time by employees. The Department formally adopted the State's policies and defined agency procedures to include the requirement that overtime work assignments, which serve as the basis for compensatory time, be approved in advance. For managerial and confidential employees advance approval is required from the Commissioner's office and for employees subject to collective bargaining, approval is required from a manager / supervisor.

Condition: We reviewed time records of four employees who accrued compensatory time during the period March 1997 through September 1998. This review disclosed 17 instances where prior approval of overtime assignments, which resulted in the accrual of compensatory time, had no documentation on file to support the approval process.

Effect: The informal process noted in our review weakens the internal control structure and the chance that irregularities may occur increases.

Cause: We were informed that verbal approval was given to the employees via the Commissioner's office or the employees' designated manager/supervisor.

Recommendation: The Department should adhere to established State and departmental procedures relative to approved overtime assignments which result in the accrual of compensatory time. (See Recommendation 4.)

Agency Response: "... the Department will utilize an official written authorization form for the approval of overtime, which serves as the basis for compensatory time. A written form will also be utilized to confirm the verbal authorizations given for overtime in emergency situations and to field staff when advance written approval is not feasible."

Liquor Control Commissioners' Work Hours:

During the course of our audit, we reviewed Liquor Control Commissioners hours' at work.

Criteria: Per Section 30-2 of the General Statutes the Liquor Control Commission shall be composed of three commissioners appointed by the Governor, one member to be the Commissioner of Consumer Protection.

In a Department of Administrative Services report dated June 1, 1983 it was determined that except the chairperson of the Liquor Control Commission, the other two members of the Commission, titled Commissioner, are considered managerial employees for purposes of compensation and benefits and assigned to the Management Pay Plan (MP).

As noted within a 1986 Opinion of the Attorney General [#85-074] the position of Commissioner, Department of Liquor Control, has been considered part time employment. [Under Public Act 95-195, effective July 1, 1995 the Department of Liquor Control was abolished and its duties transferred to the Department of Consumer Protection.]

Effective January 1, 1999 the Department of Consumer Protection determined that compensation earned by a Liquor Control Commissioner should be calculated in the same manner as would that of a part-time State manager, and bi-weekly pay of incumbents in these positions should be based upon the number of hours that they actually work as opposed to the flat rate which incumbents have historically received.

Effective April 23, 1999 the Department of Administrative Services revised the class of Liquor Control Commissioner in order to allocate the position to an appropriate compensation plan due to the Department of Liquor Control merger into the Department of Consumer Protection. The new salary group is within the Executive Compensation Plan [EX 4].

Condition: Our review of fiscal year 1998 records disclosed that the Liquor Control Commissioners' official bi-weekly timesheets indicated that they worked 35 hours (part-time), but were paid for 72.5 hours (full-time) at the MP 56 compensation rate of \$1,662.92. Effective January 1, 1999 the Liquor Control Commissioners' time sheets indicated that they worked 40 hours bi-weekly at the per hour rate of \$23.63 totalling \$945.20 for each pay period through April 22, 1999. Effective April 23, 1999 the Liquor Control Commissioners' timesheets indicated that they continue to work 40 hours bi-weekly at the salary grade determined by the Executive Compensation Plan level 4, annual rate of \$80,000 payable at part-time equivalent, \$40,000 or \$1,532.57 bi-weekly.

The Department determined that for the period June 23, 1995 through December 31, 1998 (Commissioners were appointed effective March 29, 1995) the Liquor Control Commissioners were overpaid \$69,333 and \$79,864, respectively. To date, recovery of these overpayments have not been pursued by the Department.

Effect: Liquor Control Commissioners were paid full-time compensation for part-time work.

Cause: We were informed that this condition resulted from processing errors in the computation of compensation and benefits.

Recommendation: The Department should address the appropriateness of recovering the overpayments made to the Liquor Control Commissioners. (See Recommendation 5.)

Agency Response: "The Department agrees that during the audit period it followed the long-standing practice of compensation of Liquor Control Commissioners on a fulltime basis. This practice has been reviewed and audited on numerous occasions during the past twenty-five years and never resulted in recommendations for change. The Department has adjusted the level of compensation and job responsibilities to more accurately reflect the position."

Auditors' Concluding Comments:

The Agency's response did not address the appropriateness of recovering the \$149,197 in overpayments made to the Liquor Control Commissioners.

Enforcement Activity Expenditures:

During the course of our audit, we reviewed the propriety of consumer education expenditures for a multi-media public relations advertising campaign which were to be paid from Home Improvement Enforcement, a restricted account within the State General Fund. The following is based on our review of those expenditures.

Criteria: Pursuant to Section 20-432, subsection (a), of the General Statutes, the commissioner [Commissioner of Consumer Protection], shall establish and maintain the Home Improvement Guaranty Fund. Section 20-432, subsection (c), of the General Statutes provides that the balance in this Fund is not to exceed \$750,000. Annually, if the Fund had an excess, the first \$150,000 in excess of the \$750,000 balance was to be credited to the Consumer Protection Enforcement Fund established in Section 21a-8a of the General Statutes. Effective October 1, 1997, Public Act 97-129 amended Section 20-432, subsection (c) and increased the amount of the excess to be deposited to \$400,000. Additionally, per Public Act 94-95, the Consumer Protection Enforcement Fund discontinued functioning as a

special revenue fund and transferred its available balance to, and began operating as, a restricted account within the State General Fund (SID 360). This account " ...may contain any moneys required by law to be deposited in the account."

Per Section 21a-8a, subsection (a), of the General Statutes the Consumer Protection Enforcement Account " . . . shall be used by the Department of Consumer Protection to fund positions and other related expenses for the *enforcement* of Department of Consumer Protection licensing and registration laws." [In October 1995 the Department requested a new restricted account, Home Improvement Enforcement (SID 361), to differentiate *enforcement* fund receipts and expenditures related to home improvement versus those pertaining to the rest of the agency.]

Section 4-98 of the General Statutes states that no budgeted agency nor any agent thereof shall incur any obligation, by order, contract or otherwise, except by issue of a purchase order and commitment.

Condition: The Department expended \$68,852 from the Home Improvement Enforcement Account for an estimated \$135,987 multi-media public relations advertising campaign purportedly to warn consumers of the dangers of hiring unlicensed home improvement contractors. [Total cost was \$140,370.] However, our review determined that charging the Home Improvement Enforcement Account was an inappropriate use of State funds based on existing statutes and the Attorney General concurred. This matter was reported to the Governor and other appropriate State Officials on September 24, 1998, in accordance with Section 2-90 of the General Statutes.

The former Commissioner of Consumer Protection obligated the State for costs associated with multi-media advertisements prior to the issuance of a valid contract award and proper commitment of funds.

Effect: The Department used an inappropriate source of State funds to pay for a multi-media public relations advertising campaign. As a result of our report the agency reimbursed the Home Improvement Enforcement Account from funds of the Consumer Protection Settlements Account for costs incurred.

The statutory requirements of Section 4-98 were not met.

Cause: Management determined that the multi-media public relations advertising campaign was an "enforcement activity" and expendable from the Home Improvement Enforcement Account.

The former Commissioner requested that services and materials be prepared for distribution to the public by the date of a scheduled press conference [July 7, 1998] in order to coordinate the launching of the media campaign.

Recommendation: The Department should adequately review expenditure coding prior to preparation of commitment documents and comply with the provisions of Section 4-98 of the General Statutes. (See Recommendation 6.)

Agency Response: "The Department agrees with this recommendation and will comply with the provisions of Section 4-98 of the General Statutes."

Property Control:

Our review of property control at the Department revealed the following:

Criteria: The State of Connecticut's Property Control Manual requires that each State agency establish and maintain an adequate and accurate property control record system to provide for a complete accountability and safeguarding of assets. The manual also includes specific policies concerning controllable property, wherein it is mandatory that each agency maintain a written listing of controllable property, approved by the agency head.

The State's Software Management Policy Manual (revised October, 1997) issued by the Comptroller, requires that each State agency establish a central software inventory to track and control software media, licenses and related items.

Condition: Three of 25 equipment items, sampled from the master inventory listing, could not be located within the agency.

The Department has not completed an inventory listing of controllable property approved by the Commissioner or his designee.

A complete software inventory has not been established.

Effect: The Department is not in compliance with the State of Connecticut's Property Control Manual, nor the State's Software Management Policy Manual, and the valuation of the Department's equipment and software inventories appear to be inaccurate.

Cause: Recent relocations of agency personnel and a lack of sufficient staff to monitor inventory control may have contributed to non-compliance with the provisions of the Property Control and Software Management Manuals.

Recommendation: The Department should strengthen its controls over fixed assets and comply with the State's Property Control and Software Management Policy Manuals. (See Recommendation 7.)

Agency Response: "The Department agrees with part of this recommendation and will establish a complete software inventory. It does, however, have a list of controllable property that will be revised to exclude non-portable items so that the agency is in full compliance with the State's Property Control and Software Management Policy Manuals."

Auditors' Concluding Comments:

The Department's list of controllable property, submitted subsequent to our request for the Department's management letter, does not comply with the Comptroller's requirements, wherein it is mandatory that each agency maintain a written listing of controllable property (as defined therein), approved by the agency head. The Department should consult the State of Connecticut's Property Control Manual for guidance regarding the aforementioned listing and assure that proper controls over fixed assets are in place.

Imprest Petty Cash Fund:

Our examination of petty cash activity at the Department included testing of compliance with the State Comptroller's requirements for accounting for Petty Cash Funds and revealed the following:

Criteria: The State Accounting Manual and the Department's procedures set forth policies and record keeping criteria concerning petty cash funds, including:

- Agencies are to establish controls and verify that these controls are functioning. Established department procedures require that employees receiving an advance acknowledge the receipt of funds; cash transactions require verification by two business office employees; receipt for advance or expenditure of petty cash by an employee requires acknowledgement of the transaction by their division director.
- There must be explanation and complete justification for advances outstanding in excess of 30 days.
- Employees are to submit their travel expenses within five working days of return from travel.

Condition: · We tested 58 petty cash transactions and noted the following instances of noncompliance with established Department procedures: employees did not sign for advances in two instances; cash transactions were not signed by two business office employees in five instances; division directors or their designees did not acknowledge receipt for advance or expenditure of

petty cash by their employees in 24 instances; and we noted five clerical errors in the preparation of these 58 advances.

- 14 of 58 petty cash advances were outstanding in excess of 30 days without explanation and complete justification.
- Employees receiving travel advances did not submit a completed CO-17XP, Employee Voucher, within five working days of return from travel in 11 of 15 instances tested.

Effect: The Department is not in compliance with State Comptroller's procedures for Imprest Petty Cash Funds.

Cause: The Department failed to administer established controls.

Recommendation: The Department should take action to ensure compliance with the Comptroller's Imprest Petty Cash Fund procedures. (See Recommendation 8.)

Agency Response: "The Department disagrees that the condition of its petty cash fund merits a recommendation and maintains that this account is properly monitored.

Auditors' Concluding Comments:

The exceptions noted above suggest an inadequacy of Departmental monitoring procedures and demonstrate that the Agency was not in compliance with the Comptroller's requirements for Petty Cash Fund administration.

Computer System Security:

The following is based on our review of the Department's Electronic Data Processing systems:

Background: The Professional Records Manager System (PRM) provides the Department with an operating environment capable of capturing both licensing and receipting information. Access to this system must be properly limited, controlled and administered to minimize the risk of unauthorized access.

Criteria: Good internal controls over Electronic Data Processing (EDP) systems provide that resources are protected against unauthorized use, modification, disclosure, or destruction, to assure proper safeguarding of assets. The Department's *Data Processing Policies, Standards, Security and Procedures Manual* requires periodic security assessments of EDP resources to ensure their protection.

Condition: Our review of the PRM system disclosed 32 instances where PRM access ability of former employees was not discontinued upon their termination

from the Agency. Access included: 20 former employees with read only access, eleven with ability to change data (except fee structure), and one former employee had full system access. Subsequent to our review, we were informed that user access had been suspended for the aforementioned employees, however in some instances this security assessment had exceeded two years.

Effect: The risk of unauthorized and improper use of the system is increased and not discontinuing terminated employees is a violation of the Agency's own written procedures regarding security.

Cause: PRM accessibility of former employees was not discontinued upon their termination from the Agency due to lack of proper and timely maintenance of the system.

Recommendation: The Agency should ensure proper and timely administration over EDP systems to minimize the risk of unauthorized use, and should comply with internal agency policies and procedures. (See Recommendation 9)

Agency Response: "The Department agrees with this recommendation and is working to improve its information technology security procedures."

Generally Accepted Accounting Principles (GAAP) Reporting:

Our review of the Department's GAAP reporting package disclosed the following:

Background: In conjunction with our audit of the State Comptroller's Office and the preparation of the State's 1997 Comprehensive Annual Financial Report (CAFR) we reviewed the financial data submitted by the Department to the Comptroller in its GAAP reporting package.

Criteria: The submission of complete and accurate GAAP information is instrumental in providing an accurate CAFR.

Section 4-36 of the General Statutes and the "State of Connecticut Property Control Manual" require that the Fixed Assets/Property Inventory Report/GAAP Reporting Form (CO-59) be submitted to the Comptroller's Office by August 1 of each year and should reflect the sum total of the physical inventory as of June 30.

The State Accounting Manual includes instructions for GAAP reporting and the recording of invoice (CO-17) receipt dates.

Condition: We noted inaccurate amounts reported on the CO-59. The beginning balance (June 30, 1996) of personal property was overstated by \$304,405 due to the inclusion of the value of trucks within both furnishings & equipment and

automobiles, trucks, buses, motorcycles, and trailers categories. To correct this misstatement, the Department also included \$304,405 within the deletions column on the CO-59 which overstated total deletions for the period. However, except for a minor variance (\$1,113) between the reported total on the CO-59 and the Department's master inventory records, the June 30, 1997 ending value reported to the Comptroller appears reasonable. Additionally, the required annual CO-59 report for June 30, 1997 was prepared and submitted late to the Comptroller's Office. The report was due before the deadline date of August 1, 1997; however, it was not submitted to the Comptroller until September 15, 1997 some 45 days late.

A report of GAAP expenditures for the three months ended September 30, 1997 was prepared by the State Comptroller. Our test check of transactions disclosed that the Department incorrectly recorded the receipt date for consumer restitution payable amounts on invoices (CO-17) in eight of 27 instances; the date varied between one and six days between reported and actual receipt date. Reporting inaccurate receipt dates on expenditure documentation could affect the Comptroller's accounts payable accruals for GAAP reporting purposes.

Effect: The above mentioned conditions have the effect of providing inaccurate information on the Department's GAAP package and noncompliance with Section 4-36 of the General Statutes.

Cause: We were informed that the June 30, 1997, CO-59 was prepared in this manner as it appeared to be the most expedient method to correct the misstatement. Additionally, we were informed that the delay in filing the CO-59 was due to inadequate staffing within the Business Office.

In respect to the incorrect recording of receipt dates on invoices (CO-17), it appears that the accounts payable clerk responsible for preparation of the CO-17's was not made aware of the recording requirements.

Recommendation: The Department should submit complete, accurate and timely GAAP reports to the State Comptroller. (See Recommendation 10)

Agency Response: "The Department agrees with this recommendation and is working to improve its existing inventory system, which impacts the GAAP reporting process. The condition pertaining to receipt date information on eight invoices has been corrected."

Health Club Guarantee Fund:

Our examination of payments of claims made from the Health Club Guaranty Fund disclosed the following:

Criteria: The Department's internal control system over disbursements from the Health Club Guaranty Fund operates to assure compliance with Section 21a-226, subsection (e) of the General Statutes by requiring that applications for a payment from the Guaranty Fund be accepted no more than six months after the date of the closing of the location of the health club where the buyer entered into the contract and that a copy of the contract be provided.

Condition: Of the 15 payments tested, five files contained applications that were accepted after the six month cutoff date following the close of the health club. Also, one file did not contain a copy of the consumer's contract with the health club.

Effect: Payments of claims were made without full compliance with statutory requirements.

Cause: The Department accepted applications for payments which exceeded the six months provision of the Statute, provided the consumer had reported a claim prior to that date.

We were informed that the consumer who did not provide a copy of the contract claimed that no contract was received from the health club upon joining; in lieu of a contract the claim was accepted on the basis of a cancelled check.

Recommendation: Compliance with internal control provisions pertaining to documentation of required items prior to payment of claims from the Health Club Guaranty Fund should be improved. (See Recommendation 11.)

Agency Response: "Section 21a-226(e) provides that applications for payment from the Health Club Guaranty Fund shall be submitted within six months from the date of the health club closing. Once the Department receives a written communication from a consumer alleging that he has a claim to the Health Club Guaranty Fund, the Department reviews such application from the consumer. On occasion, the review discloses that additional information is required in order to fulfill the statutory requirement necessary to make payment to the consumer. The Department considers this to be supplemental information to the initial application if such initial application was received within the proper time period. In cases where the Department has no written communication from the consumer within the six months, the consumer is denied access to the Health Club Guaranty Fund. Section 21a-

226(e) provides that the consumer shall submit a copy of the contract to the Department. In one instance, the consumer alleged that the health club failed to provide a copy of the contract. However, the consumer was able to provide the Department with a copy of a cancelled check as proof of payment and membership to the health club. The Department considered it punitive to deny the consumer access to the guaranty fund based on the health club's failure to comply with the state law requiring that the consumer be given a copy of a contract. Therefore, in accordance with general law, the copy of the cancelled check was used as evidence of a contractual agreement between the two parties along with supporting evidence documenting the dates of membership. It should be noted that the Department will propose a legislative change in the upcoming session to clarify that a copy of the contract or other proof of payment will be acceptable for purposes of accessing the Health Club Guaranty Fund."

Auditors' Concluding Comments:

The Agency's response does not agree with Section 21a-226, subsection (e) of the General Statutes.

Summary of Violation Reports:

<i>Criteria:</i>	A summary report should be prepared periodically to keep management informed as to the status of cases of reported violations of liquor control laws.
<i>Condition:</i>	The current system could not immediately reveal the various stages of cases in a summary format. Violation reports coming into the department were sequentially recorded; however, there was no controlling total for cases in various stages of adjudication including cases pending or continued.
<i>Effect:</i>	Information on the status of cases in various stages of investigation or adjudication was not available in summary form.
<i>Cause:</i>	We were informed by Agency personnel that it would be too costly to program this type of a report into the computer.
<i>Conclusion:</i>	We were informed that the Agency has acquired a new software application, which includes a management reporting component with the capabilities of providing the Commissioner's Office with up-to-date information on the status of cases being investigated and/or adjudicated.

Brand Registrations:

- Criteria:* Under the provisions of Section 30-63 of the General Statutes, all brands of alcoholic liquors offered for sale in this State must be registered with the Department.
- Condition:* There have been few, if any, management controls in place to assure that all brand labels being offered for sale in the State are registered. Tests in previous audits have indicated that not all brands are registered, and the Agency has not changed its management controls since then.
- Effect:* The lack of a management control system means that the Agency cannot be assured that it has limited the chances of unregistered brands being offered for sale in the State.
- Cause:* The Agency has not placed a high priority on implementing a management control system for brand registrations.
- Recommendation:* The Department should develop a management control system for brand registrations that should include procedures to detect unregistered brands that are being sold in the State. (See recommendation 12.)
- Agency Response:* "The Department agrees with this recommendation and has purchased a new licensing and complaint-handling software application, which will facilitate the Department's regulatory oversight of brands registration."

Full Time Staffing of Liquor Control Casino Agents at the Casinos:

- Criteria:* The State's permittees are subject to special investigations when complaints have been filed against them or their establishment and they are always subject to periodic, unannounced inspections.
- Condition:* The staffing levels of liquor control inspectors at the casinos are not reasonable as compared to the numbers of liquor control agents who are responsible for the enforcement of the Liquor Control Act at the other licensed establishments in the State. Agents are assigned full time to the casinos (5 at Foxwoods and 4 at the Mohegan Sun as of July 15, 1999), while the other almost 7,000 licensed establishments in the State are subject to periodic unannounced inspections by the remaining ten to 15 agents.
- Effect:* The full time coverage at the casinos may give the appearance of less than an arm's length relationship between the Department and the Casinos. Also, the full time coverage at the casinos means that the rest of the State does not receive the same level of coverage provided to the casinos.

Cause: Our prior audit indicated that Agency officials stated that by having a full time force on the premises it increases the vigilance maintained by the private security force hired to prevent violations of the liquor laws. It was also contended that because of the large number of visitors full time coverage was needed.

Recommendation: The Department should eliminate the full-time coverage by liquor control casino agents at the casinos and inspect those facilities on a random basis. (See recommendation 13.)

Agency Response: "The recommendation that the Department should eliminate full-time coverage by liquor control agents at the casinos and inspect those facilities on a random basis should be re-evaluated in light of changes made to this program since the merger of the former Department of Liquor Control with the Department of Consumer Protection in July, 1995. Specifically, the Department maintains that full-time regulatory coverage cannot be completely eliminated because of the unique liquor-dispensing operations at both the Mohegan Sun and Foxwoods Resort Casinos. Unlike most of the establishments in the State which serve alcoholic beverages and are inspected on a periodic basis, the casinos serve approximately 2% of all the liquor sold in the State of Connecticut, and provide the public with virtually unlimited access to free alcohol. The Department feels that the sentinel effect of a fulltime casino agent(s) greatly enhances its ability to protect the public health and safety both on and off the reservations. It is important to note, however, that the Department does randomly inspect various liquor aspects of the facilities at the casinos.

The Department of Consumer Protection established new classifications of "Liquor Control Casino Agent" and "Liquor Control Supervising Casino Agent" after the 1995 merger in order to address the unique needs of the casino operations. The Department also implemented a 50% reduction in the size of enforcement staff assigned to both of the casinos. The number of casino agents at the Foxwoods Resorts facility has been reduced from ten to five while the number of enforcement personnel at the Mohegan Sun Casino has been reduced from eight to four."

Casino Permits:

To allow the State to regulate and enforce the Liquor Control Act when a permit is issued to a casino, the General Statutes should be amended to include such licenses.

Criteria: There are 65 different permits allowed under the Act, which take into account just about every type of operation, insignificant or not, which may be dispensing, distributing or manufacturing alcoholic beverages, but there is none that is specifically for a casino.

- Condition:* Many of the unique aspects of the casinos, such as gambling and providing free drinks to persons who are gambling, are not covered in the existing legislation and regulations regarding the Liquor Control Act.
- Effect:* The Department has been forced to adapt the laws and regulations for a restaurant permit, one of the permit types presently granted to the casinos, to accommodate a casino operation.
- Cause:* The problem of a unique type of license for the casinos has not yet been successfully addressed.
- Recommendation:* The Liquor Control Act should be modified to include a license for a casino and that modification should mandate a fee that is appropriate to the size of the business that is being licensed. (See recommendation 14).
- Agency Response:* "The Department agrees with this recommendation and has submitted a legislative proposal for a casino permit and is awaiting approval from the Legislature to implement this new license type."

RECOMMENDATIONS

Our prior audit examination of the Department of Consumer Protection contained three recommendations. A summary of those recommendations and the action taken follow:

- The Department should develop procedures to assure compliance with accounting records retention requirements. Our current review also disclosed that some records were not available for our review. We are restating this as recommendation 1.
- The Department should deposit revenue receipts promptly as provided in Section 4-32 of the General Statutes. During the course of our current review we again noted violations of Section 4-32 of the General Statutes. This recommendation is being repeated as recommendation 2.
- Compliance with internal control provisions pertaining to documentation of required items prior to payment of claims from the Health Club Guaranty Fund and the Home Improvement Guaranty Fund should be improved. We noted similar conditions in our review of claims paid from the Health Club Guarantee Fund. Therefore, we are repeating that part of the recommendation as recommendation 11.

Our prior audit of the former Department of Liquor Control contained three recommendations. A summary of those recommendations and the action taken follow:

- A comprehensive publication to guide licensees toward departmental regulations should be published. A new publication of the "Liquor Control Act and Regulations" was published by the Department in January, 1998. Therefore, this recommendation will not be repeated.
- The Department should integrate its investigation and adjudication computer systems to reflect the various stages of case disposition. The Department is in the process of complying with this recommendation, and it will not be repeated.
- The Department should deposit all cash receipts promptly. We again noted instances of late deposits and have repeated this as recommendation 2.

A performance audit of the former Department of Liquor Control was issued by our office on May 23, 1995, and contained eight recommendations. A summary of those recommendations and the action taken follow:

- The functions of the Department of Liquor Control should be transferred to the Department of Consumer Protection. Public Act #95-195 abolished the Department of Liquor Control and transferred its duties to the Department of Consumer Protection. This recommendation will not be repeated.
- Legislative changes should be made to impose a \$100 penalty if renewal applications are not made within the stated time requirement and, instead of a six-month or one-year option, liquor permits should have a life of two years with an appropriate fee adjustment. The

Department should correct instructions on its renewal form to agree with the General Statutes and take steps to enforce its regulations. The Agency has revised the renewal application form and does impose fines when applications are submitted late. The two year permit was considered by the Agency, but rejected as it was thought that this would impose a hardship on some establishments, especially seasonal ones. Therefore, this recommendation will not be repeated.

- The Department should discontinue the investigative process followed for new applications, rely on certified documents and on the public's right to a remonstrance, and investigate only if there is any reason to believe that the applicant is unsuitable or is not telling the truth. The Department should use performance measures to evaluate the effect of its enforcement actions. The Department has revised its procedures for investigating new applications and certain applications are not investigated, such as large chain supermarkets. It appears that the Agency has substantially complied with this recommendation, and it will not be repeated.
- The Department should investigate complaints of alleged violations of the Liquor Control Act within a reasonable time. Action has been taken to comply with this recommendation and complaints are reviewed in a much more timely manner. This recommendation will not be repeated.
- The Department should attempt to recoup an estimated \$500,000 for undercharges of brand registration fees. Also, the Department should develop a management control system for brand registrations that should include regular procedures to detect unregistered brands that are being sold in the State. Based on information offered by the Attorney General's Office, which suggested that the collection of this money might put the State at risk for legal action, then Commissioner Mark Shiffrin stated, by letter dated December 12, 1996, that the recovery of the estimated \$500,000 in undercharges would not be pursued; therefore, this part of the recommendation will not be repeated. However, procedures to detect unregistered brands that are being sold in the State have not changed since the date of the performance audit and this part of the recommendation will be repeated as recommendation 12.
- The Department should eliminate the full-time coverage by liquor control casino agents at the Foxwoods Casino and inspect that facility on a random basis. We were informed by agency personnel that negotiations are underway to change the way the casinos are regulated. Negotiations at the Mohegan Sun have been completed and call for reduced staffing levels although still on a full time basis, while the negotiations at the Foxwoods Casino are continuing. As these negotiations have not yet resulted in the elimination of the full-time coverage by liquor control casino agents, we will be repeating this recommendation as recommendation 13.
- The Liquor Control Act should be modified to include a license for a casino and that modification should mandate a fee that is appropriate to the size of the business that is being licensed. We were informed by agency personnel that the nature of casino operations lends itself to charging directly for reimbursement of the specific enforcement cost, not to the establishment of a new licensing category. Therefore, this recommendation has not been complied with and will be repeated as recommendation 14.

- The Department should take steps to have current information about liquor control laws in any literature it distributes. The Department of Consumer Protection published the "Liquor Control Act and Regulations" in January, 1998. Therefore, this recommendation will not be repeated.

The following 14 recommendations include six recommendations which have been repeated from our prior reports and eight which have been developed as a result of this examination.

Current Audit Recommendations:

- 1. The Department should develop procedures to assure compliance with accounting records retention requirements of the State Library, Office of Public Records Administration.**

Comment:

Such requirements, promulgated in accordance with Section 11-8 of the General Statutes, provide that accounting records be retained for three years or until audited, whichever comes later. The Department was unable to provide certain documents related to licensing receipts, payroll transactions and expenditures.

- 2. The Department should establish adequate procedures for the recording, depositing and reporting of revenue receipts to comply with provisions of Section 4-32 of the General Statutes.**

Comment:

We noted that numerous deposits, consisting mainly of license and permit receipts, were not deposited nor reported to the State Treasurer within the statutory time permitted.

- 3. The Department should comply with Section 5-198, subsection (n) of the General Statutes.**

Comment:

Our review disclosed that the Department reclassified incumbents appointed to Durational Project Manager positions to permanent positions in the classified and unclassified service non-competitively. Additionally, we noted instances where Durational Project Manager positions were staffed to provide normal administrative functions.

- 4. The Department should adhere to established State and departmental policies and procedures relative to payroll and personnel transactions.**

Comment:

Our review of personnel actions disclosed that in some instances transactions were processed without proper departmental authorizations or evidence that employees met minimum qualification for employment; official time reports did not reflect hours at work or time taken, were not signed or initialed by the employee nor reviewed and approved by an appropriate supervisor; and established overtime procedures were not followed in the approval process for overtime assignments which resulted in the accrual of compensatory time.

- 5. The Department should address the appropriateness of recovering overpayments made to the Liquor Control Commissioners.**

Comment:

The Department determined that two Liquor Control Commissioners were paid full-time compensation for part-time work for the period June 23, 1995 through December 31, 1998 in the amounts of \$69,333 and \$79,864, respectively. To date, recovery of these overpayments has not been pursued by the Department.

- 6. The Department should adequately review expenditure coding prior to preparation of commitment documents and comply with the provisions of Section 4-98 of the General Statutes.**

Comment:

The Department used an inappropriate source of State funds for a multi-media public relations advertising campaign. Additionally, the former Commissioner of Consumer Protection obligated the State for costs associated with the aforementioned advertising campaign prior to the issuance of a valid contract award and proper commitment of funds.

- 7. The Department should strengthen its controls over fixed assets and comply with the State's Property Control and Software Management Policy Manuals.**

Comment:

Several items listed on the master inventory listing could not be located within the Department. Additionally, the Department has not prepared an inventory listing of controllable property and established a complete software inventory.

- 8. The Department should take action to ensure compliance with the Comptroller's Imprest Petty Cash Fund procedures.**

Comment:

Our review of petty cash transactions determined that the Department did not follow established control procedures; petty cash advances were outstanding for over 30 days without explanation and complete justification, and travel expense vouchers were not submitted within five working days of return from travel.

- 9. The Department should ensure proper and timely administration over EDP systems to minimize the risk of unauthorized use, and should comply with internal agency policies and procedures.**

Comment:

Our review of the Professional Records Management system disclosed instances where access ability of former employees was not discontinued upon their termination from the Department.

- 10. The Department should submit complete, accurate and timely GAAP reports to the State Comptroller.**

Comment:

The Department's 1997 GAAP report for Fixed Assets/Property Inventory Report, CO-59, was submitted to the State Comptroller late and with inaccurate amounts; and the Department incorrectly recorded receipt dates on certain State invoices which could affect year-end reporting requirements.

- 11. Compliance with internal control provisions pertaining to documentation of required items prior to payment of claims from the Health Club Guaranty Fund should be improved.**

Comment:

Our testing of payments of claims from the fund disclosed instances where required documents or evidence of compliance with statutory requirements were not on file or met.

12. The Department should develop a management control system for brand registrations that should include procedures to detect unregistered brands that are being sold in the State.

Comment:

The Department's system to assure compliance with brand registration laws is weak including: (1) There has been no comparison of brands being offered for sale in the State to the brands that are properly registered in the State. (2) The Department's inspection forces have not been verifying that unregistered brands are not being sold, because the inspection resources have been devoted to other responsibilities. (3) The Department has not been diligent in verifying that all registrations that are allowed to expire should not be renewed instead. (4) The Department's record keeping is not reliable.

13. The Department should eliminate the full-time coverage by liquor control casino agents at the casinos and inspect those facilities on a random basis.

Comment:

Staffing of liquor control casino agents at the casinos is not reasonable when compared to the liquor control agents available to inspect and conduct investigations at the other almost 7,000 establishments, which are licensed by the State. Also, the full time coverage at the casinos may give the appearance that the relationship between the Department and the casinos is less than at an arm's length. Some of the duties performed by the liquor control casino agents at the casinos give the impression that the agents are working for the casinos and not for the State.

14. The Liquor Control Act should be modified to include a license for a casino and that modification should mandate a fee that is appropriate to the size of the business that is being licensed.

Comment:

The Liquor Control Act contains provisions for issuing 65 different types of liquor permits, but it does not have a license for a casino. The Department has been issuing permits that are designated as "restaurants" to the casinos and has had to adapt those permits to conditions found at the casinos. The fees, \$1,200 for a restaurant and \$150 for additional consumer bars, do not appear to be sufficient when the casinos' business is compared to other licensed restaurants in the State.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Department of Consumer Protection for the fiscal years ended June 30, 1996 and 1997. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Consumer Protection for the fiscal years ended June 30, 1996 and 1997, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial-related audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Department of Consumer Protection complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Department of Consumer Protection is the responsibility of the Department of Consumer Protection's management.

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations for the fiscal years ended June 30, 1996 and 1997, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial or less than significant instances of noncompliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

Internal Control over Financial Operations, Safeguarding of Assets and Compliance:

The management of the Department of Consumer Protection is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the Agency.

In planning and performing our audit, we considered the Agency's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Agency's financial operations in order to determine our auditing procedures for the purpose of evaluating the Department of Consumer Protection's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

However, we noted certain matters involving the internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets and/ or comply with certain provisions of laws, regulations, contracts and grants. We believe the following findings represent reportable conditions: non-compliance with the accounting records retention requirements of the State Library; lack of adequate procedures for recording, depositing and reporting of revenue receipts; non-compliance with the purposes of Section 5-198, subsection (n) re: establishment of Durational Project Manager and other durational positions; failure to adhere to established State and departmental policies and procedures relative to payroll and personnel transactions; inadequate review of expenditure coding prior to preparation of commitment documents and non-compliance with the provisions of Section 4-98 of the General Statutes; failure to comply with the State's Property Control and Software Management Policy Manuals; lack of compliance with the Comptroller's Imprest Petty Cash Fund procedures; failure to ensure proper and timely administration over EDP systems to minimize the risk of unauthorized use; failure to submit complete, accurate and timely GAAP reports to the State Comptroller; failure to comply with internal control provisions pertaining to documentation of required items prior to payment of claims from the Health Club Guaranty Fund and; failure to develop a management control system for brand registrations including regular procedures to detect unregistered brands that are being sold in the State.

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts and grants or the requirements to safeguard assets that would be material in relation to the Agency's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the Agency's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, we believe that none of the reportable conditions described above is a material or significant weakness.

We also noted other matters involving internal control over the Agency's financial operations and over compliance which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

Auditors of Public Accounts

This report is intended for the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.

CONCLUSION

We wish to express our appreciation for the cooperation and courtesies extended to our representatives by the officials and staff of the Department of Consumer Protection during the course of our examination.

George E. Lincoln
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts